

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

**Financial Statements for the
Years Ended December 31, 2014 and 2013 and
Independent Auditors' Report**

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

Financial Statements for the Years Ended December 31, 2014 and 2013 and Independent Auditors' Report

BOARD MEMBERS (2014)

J. Allen Barnhill, Jr., Chairman

Rex Bost, Vice Chairman

Robert E. Lasater, P.E.

Cleve Paul

Gray E. Pendleton

Leslie Silverstein

J. Jerry Smith, Jr.

Larry Watson

Carl W. Worsley, Jr.

EXECUTIVE OFFICER

Mark D. Selph, Secretary-Treasurer

LEGAL COUNSEL

Allen, Pinnix & Nichols, P.A.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

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NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the years ending December 31, 2014 and 2013. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

During 2014, the Board's net position for its Operating Fund increased by \$236,581, or 4.8%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2013, the Board's net position for its Operating Fund increased by \$347,287, or 7.6%, due primarily to a consistent recurrence of revenues exceeding expenses. During 2014, the Board's net position for its Recovery Fund decreased by \$74,260, or 13.0%, due primarily to the board awarding Recovery Fund claims during 2014 (compared to none during 2013). During 2013, the Board's net position for its Recovery Fund increased by \$328,696, or 136.5%, due primarily to the board awarding no Recovery Fund claims during 2013.

During 2014, the Board's operating revenues for its Operating Fund increased by \$73,035, or 2.6%, due primarily to an increase in renewal fees and processing fees. During 2013, the Board's operating revenues for its Operating Fund decreased by \$74,093, or 2.6%, due primarily to a decrease in renewal fees. During 2014, the Board's operating revenues for its Recovery Fund decreased by \$42,068, or 10.1%, due to a decrease in recovery fees collected. During 2013, the Board's operating revenues for its Recovery Fund increased by \$54,972, or 15.1%, due to an increase in recovery fees collected.

During 2014, the Board's non-operating revenues (less non-operating expenses) for its Operating Fund increased by \$9,090, or 6.3%, due to a decrease in interest expense on loans. During 2013, the Board's non-operating revenues (less non-operating expenses) for its Operating Fund increased by \$16,078, due to a decrease in interest expense on loans and a decrease in cash on hand. During 2014, the Board's non-operating revenues for its Recovery Fund increased by \$140, or 32.3%, due to having more deposits in an interest bearing account. During 2013, the Board's non-operating revenues for its Recovery Fund decreased by \$947, or 68.6%, due to a decrease in cash on hand and due to a decrease in earnings rates of return on cash on hand.

During 2014, the Board's operating expenses for its Operating Fund increased by \$192,831, or 8.4%, due primarily to an increase in salaries and related benefits, contracted temporary services, and computer and web site support expenses. During 2013, the Board's operating expenses for its Operating Fund decreased by \$6,486, or .3%, due primarily to a decrease in office related expenses. During 2014, the Board's operating expenses for its Recovery Fund increased by \$361,028 or 400.5%, due primarily to the Board awarding Recovery Fund claims during 2014 (compared to none during 2013). During 2013, the Board's operating expenses for its Recovery Fund decreased by \$580,607 or 86.6%, due primarily to the Board awarding no Recovery Fund claims during 2013.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

This financial report consists of two sections: Management's Discussion and Analysis and the Financial Statements. The Board has no other supplementary information required by GASB 34. The Financial Statements also include notes to the financial statements that provide detail of the information included in the financial statements.

Basic Financial Statements

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board. The Statements of Net Position present the current and long-term portions of assets and liabilities separately. The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's assets changed as a result of its operations. The Statements of Cash Flows present information on how the Board's cash changed as a result of its financial activities.

Condensed Financial Information

The following presents condensed financial information on the operations of the Board:

	Current Year as of and for the year ended December 31, 2014 Operating Fund	Current Year as of and for the year ended December 31, 2014 Recovery Fund	Current Year as of and for the year ended December 31, 2013 Operating Fund	Current Year as of and for the year ended December 31, 2013 Recovery Fund
Current assets	\$ 3,739,481	\$ 488,495	\$ 3,223,016	\$ 561,117
Capital assets	6,652,242	6,922	6,477,264	8,467
Other assets			484,702	
Total assets	<u>\$ 10,391,723</u>	<u>\$ 495,417</u>	<u>\$ 10,184,982</u>	<u>\$ 569,584</u>
Current liabilities	\$ 1,859,130	\$ 143	\$ 1,715,077	\$ 50
Long-term liabilities	3,406,263		3,580,156	
Total liabilities	<u>\$ 5,265,393</u>	<u>\$ 143</u>	<u>\$ 5,295,233</u>	<u>\$ 50</u>
Net investment in capital assets	\$ 2,946,254	\$ 6,922	\$ 2,717,965	\$ 8,467
Restricted		488,352	484,702	561,067
Unrestricted	2,180,076		1,687,082	
Total net position	<u>\$ 5,126,330</u>	<u>\$ 495,274</u>	<u>\$ 4,889,749</u>	<u>\$ 569,534</u>
Operating revenues	\$ 2,866,522	\$ 376,333	\$ 2,793,487	\$ 418,401
Operating expenses	(2,495,677)	(451,166)	(2,302,846)	(90,138)
Operating income	370,845	(74,833)	490,641	328,263
Non-operating revenues	(134,264)	573	(143,354)	433
Change in net position	<u>\$ 236,581</u>	<u>\$ (74,260)</u>	<u>\$ 347,287</u>	<u>\$ 328,696</u>

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Events Affecting Future Operations

The Board has no significant events affecting future operations which are reportable pursuant to GASB 34.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: North Carolina Licensing Board for General Contractors, PO Box 17187, Raleigh, NC 27619.

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INDEPENDENT AUDITORS' REPORT

Members of the Board
North Carolina Licensing Board for General Contractors
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes to the financial statements as listed in the table of contents of the North Carolina Licensing Board for General Contractors (the "Board"), an independent state agency which is a nonmajor enterprise fund of the primary government of the State of North Carolina, as of December 31, 2014 and 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on the audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Licensing Board for General Contractors as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance thereon.

A handwritten signature in black ink that reads "Shelton L. Hawley, C.P.A., P.A." The signature is written in a cursive, flowing style.

Shelton L. Hawley, C.P.A., P.A.

Angier, North Carolina

April 22, 2015

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014		2013	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 1 and 2)	\$ 3,710,546	\$ 488,495	\$ 3,201,186	\$ 561,117
Prepaid expenses (Note 1)	28,935		21,830	
Total current assets	3,739,481	488,495	3,223,016	561,117
Capital assets (Note 1):				
Land and building	6,147,840		6,220,127	
Furniture and office equipment	504,402	6,922	257,137	8,467
Total capital assets - net of depreciation	6,652,242	6,922	6,477,264	8,467
Other assets:				
Cash and cash equivalents (Notes 1 and 2)			484,702	
Total other assets	0	0	484,702	0
TOTAL ASSETS	\$ 10,391,723	\$ 495,417	\$ 10,184,982	\$ 569,584
LIABILITIES AND NET POSITION				
LIABILITIES:				
Current liabilities:				
Accounts payable - operations	\$ 29,789	\$ 126	\$ 18,666	\$ 16
Due to other state agencies	1,269	17	821	34
Notes payable - current portion (Note 6)	367,638		257,184	
Accrued vacation - current portion (Notes 1 and 6)	11,984		17,131	
Unearned revenue (Note 3)	1,448,450		1,421,275	
Total current liabilities	1,859,130	143	1,715,077	50

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014		2013	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Long-term debt:				
Notes payable - long-term portion (Note 6)	3,338,350		3,502,115	
Accrued vacation - long-term portion (Notes 1 and 6)	67,913		78,041	
Total long-term debt	3,406,263	0	3,580,156	0
TOTAL LIABILITIES	5,265,393	143	5,295,233	50
NET POSITION (NOTES 1, 2 AND 4):				
Net investment in capital assets	2,946,254	6,922	2,717,965	8,467
Restricted for notes payable- collateral			484,702	
Restricted net position - expendable		238,352		311,067
Restricted net position - nonexpendable		250,000		250,000
Unrestricted net position	2,180,076		1,687,082	
TOTAL NET POSITION	5,126,330	495,274	4,889,749	569,534
TOTAL LIABILITIES AND NET POSITION	\$ 10,391,723	\$ 495,417	\$ 10,184,982	\$ 569,584

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Year Ended December 31,			
	2014		2013	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
OPERATING REVENUES:				
Renewals	\$ 2,309,025	\$	\$ 2,260,650	\$
Processing fees	287,606		267,265	
New application fees	122,625		137,720	
Applications	3,566		4,812	
Increase in limit fees	19,225		15,150	
Recovery fees (Note 1)		376,333		418,401
Sales of publications	8,798		7,825	
Administrative reimbursement from				
Recovery Fund	79,200		79,200	
Other income	36,477		20,865	
Total operating revenues	<u>\$ 2,866,522</u>	<u>\$ 376,333</u>	<u>\$ 2,793,487</u>	<u>\$ 418,401</u>
OPERATING EXPENSES:				
Salaries (including accumulated leave)	\$ 1,038,354	\$	\$ 977,106	\$
Social security/medicare contributions	77,265		73,457	
Unemployment claim paid	3,360		44	
Retirement contributions (Note 7)	58,804		56,704	
Employee benefits	296,336		272,473	
Contracted temporary services	31,840		7,298	
Board members expenses	23,879	900	16,806	200
Staff travel expenses	45,313		47,055	
Hearing expenses		3,082		33
Telephone	20,692	206	18,681	205
Building operating costs	88,600		81,933	
Depreciation	156,161	1,545	148,877	1,316
Machine rental and maintenance (Note 5)	46,113	3,360	59,796	4,148
Office supplies and expenses	17,394	73	14,894	
Printing and copying costs	75,601	247	69,186	683
Postage	85,522		73,786	

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Year Ended December 31,			
	2014		2013	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
OPERATING EXPENSES				
(CONTINUED):				
Computer and web site support expenses	129,205		88,305	
Insurance and bonding	9,467		3,818	
Dues and subscriptions	1,717		1,418	
Legal, auditing, accounting and other professional fees	280,062	8,053	279,679	4,353
Contribution to North Carolina Engineering Foundation	5,000		5,000	
Claims paid (Notes 1 and 10)		354,500		
Administrative reimbursement to Operating Fund		79,200		79,200
Miscellaneous expenses	4,992		6,530	
Total operating expenses	<u>\$ 2,495,677</u>	<u>\$ 451,166</u>	<u>\$ 2,302,846</u>	<u>\$ 90,138</u>
Operating income (loss)	370,845	(74,833)	490,641	328,263
NON-OPERATING INCOME				
(EXPENSES):				
Gain (loss) on disposition of capital assets			(21)	
Gain (loss) on investments			(3,771)	
Interest and money market income	177	573	6,097	433
Interest expense on loans	<u>(134,441)</u>		<u>(145,659)</u>	
Total non-operating revenues (net)	<u>\$ (134,264)</u>	<u>\$ 573</u>	<u>\$ (143,354)</u>	<u>\$ 433</u>
Change in net position	\$ 236,581	\$ (74,260)	\$ 347,287	\$ 328,696
Net position - beginning of year	<u>4,889,749</u>	<u>569,534</u>	<u>4,542,462</u>	<u>240,838</u>
Net position - end of year	<u><u>\$ 5,126,330</u></u>	<u><u>\$ 495,274</u></u>	<u><u>\$ 4,889,749</u></u>	<u><u>\$ 569,534</u></u>

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Year Ended December 31,			
	2014		2013	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Cash flows from operating activities:				
Cash received from fees	\$ 2,769,222	\$ 376,333	\$ 2,773,972	\$ 418,401
Cash received from other operating revenues	124,475		107,890	
Cash payments to employees for services (including benefits)	(1,489,394)		(1,378,643)	
Cash payments for operating expenses	<u>(860,931)</u>	<u>(449,528)</u>	<u>(793,239)</u>	<u>(95,921)</u>
Net cash provided (used) by operating activities	\$ 543,372	\$ (73,195)	\$ 709,980	\$ 322,480
Cash flows from capital and related financing activities:				
Gain (loss) on investments	\$	\$	\$ (3,771)	\$
Acquisition of capital assets	(331,139)		(13,190)	
Principal payments on loans	(53,311)		(376,226)	
Interest payments on loans	<u>(134,441)</u>		<u>(145,659)</u>	
Net cash provided (used) in capital and related financing activities	<u>\$ (518,891)</u>	<u>\$ 0</u>	<u>\$ (538,846)</u>	<u>\$ 0</u>
Cash flows from investing activities:				
Transfer from (to) investments	\$	\$	\$ 1,340,555	\$
Interest on cash and investments	<u>177</u>	<u>573</u>	<u>6,209</u>	<u>433</u>
Net cash provided (used) by investing activities	\$ 177	\$ 573	\$ 1,346,764	\$ 433
Net increase (decrease) in cash	<u>\$ 24,658</u>	<u>\$ (72,622)</u>	<u>\$ 1,517,898</u>	<u>\$ 322,913</u>
Cash - beginning of year	<u>3,685,888</u>	<u>561,117</u>	<u>2,167,990</u>	<u>238,204</u>
Cash - end of year	<u><u>\$ 3,710,546</u></u>	<u><u>\$ 488,495</u></u>	<u><u>\$ 3,685,888</u></u>	<u><u>\$ 561,117</u></u>

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Year Ended December 31,			
	2014		2013	
	Proprietary - Enterprise Funds		Proprietary - Enterprise Funds	
	Operating Fund	Recovery Fund	Operating Fund	Recovery Fund
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 370,845	\$ (74,833)	\$ 490,641	\$ 328,263
Adjustments to reconcile operating income To net cash provided by operating activities				
Depreciation	\$ 156,161	\$ 1,545	\$ 148,877	\$ 1,316
Changes in assets and liabilities:				
Prepaid expenses	(7,105)		(1,284)	
Accounts payable	11,571	93	(17,770)	(7,099)
Unearned revenue	27,175		88,375	
Other accrued liabilities	(15,275)		1,141	
Total adjustments	\$ 172,527	\$ 1,638	\$ 219,339	\$ (5,783)
Net cash provided (used) by operating activities	\$ 543,372	\$ (73,195)	\$ 709,980	\$ 322,480
Supplemental Disclosure of Cash Flow Information:				
Interest Paid on Notes (Operating Cost Only)	\$ 134,441		\$ 145,659	

See notes to financial statements.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 1 - Nature of Activities and Significant Accounting Policies

Description of Organization

The North Carolina Licensing Board for General Contractors (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 87 of the North Carolina General Statutes. The Board is composed of nine members who are appointed by the Governor of the State of North Carolina. It is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR).

The Board is established to maintain minimum standards for services provided by general contractors.

The Board's operations are financed with self-generated revenues from fees charged to licensees.

On March 10, 1925, upon the creation of the Board pursuant to Article I, Chapter 87 of the General Statutes of the State of North Carolina, the Board began operations through its Operating Fund. The Board's Operating Fund has the right to retain as a reserve at least 10% of the total expense it incurs for each year's operation to meet any emergency that may arise. Any surplus may be paid over to the Greater University of North Carolina for the use of the School of Engineering through the North Carolina Engineering Foundation. The revenues and expenses for the Operating Fund are shown as a proprietary (enterprise) fund.

On October 1, 1991, the Board established the Homeowners Recovery Fund (the "Recovery Fund"), as mandated by Section 87-15 of the General Statutes of the State of North Carolina. The North Carolina Licensing Board for General Contractors is responsible for the administration and maintenance of the Recovery Fund pursuant to the provisions of G.S. 87-15. The Recovery Fund reimburses the Board's Operating Fund for administrative costs on a monthly basis. The purpose of the fund is to reimburse homeowners who have suffered a reimbursable loss under the statute in constructing or altering a single-family residential dwelling unit. Accordingly, it is customary for the Board to have a number of such claims pending. The Board may reject or allow part or all of a claim based on the amount of money in the Recovery Fund. The Recovery Fund is required by statute to maintain a minimum balance of \$250,000. The revenues and expenses for the Recovery Fund are shown as a proprietary (enterprise) fund. The Homeowners Recovery Fund is a restricted fund with expendable and nonexpendable components.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

All activities of the Board are accounted for within two proprietary (enterprise) funds as described in the foregoing section above. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the Board is responsible.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

Basis of Accounting

In accordance with *Statement of Governmental Accounting Standards 34*, the Board herewith presents Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The Statements of Revenues, Expenses, and Changes in Net Position demonstrate the degree to which the direct expenses of the Board are offset by examination and license fees.

The financial statements report all activities of the North Carolina Licensing Board for General Contractors using the economic resource measurement focus and the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing, capital, and non-capital financing activities; and are classified as non-operating in the financial statements.

Revenue Recognition - Recovery Fund - Pursuant to Section 87-15 of the General Statutes of North Carolina, revenue of the Homeowners Recovery Fund is derived from fees collected by city and county inspectors for the issuance of permits for the construction or alteration of certain single-family residential dwelling units. Revenues earned but uncollected at year end cannot be determined or reasonably estimated, and accordingly, revenues of the Homeowners Recovery Fund are recorded when collected.

Cash and Cash Equivalents

This classification includes undeposited receipts, petty cash, checking accounts and time deposits (excluding certain certificates of deposit, if any) held by the Board.

Investments

The Board is authorized to invest idle funds in accordance with North Carolina General Statutes. This classification consists of certain certificates of deposits held by the Board for investment. Investments generally are reported at fair market value. Certificates of deposit are reported at cost (which is the same as fair value) if purchased in the primary certificate of deposit market, and at fair value if purchased in the secondary certificate of deposit market (as determined by quoted market prices). Money market mutual funds, if any, are carried at fair market value. The net increase (decrease) in the fair value of investments is recognized as a component of investment income. The Board held no investments at December 31, 2014 and December 31, 2013, however, the Board did hold investments at the beginning of the fiscal year ended December 31, 2013.

Fair Value of Financial Instruments

The carrying amounts of the Board's financial instruments approximate their fair value.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Prepaid Expenses

This classification includes prepaid health insurance, prepaid commercial insurance and a prepaid retirement administration fee.

Vacation and Sick Leave

Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. On December 31st accrued vacation in excess of the limits are transferred and added to sick leave balances. Accumulated earned vacation payable at December 31, 2014 and 2013, consisted of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Current portion	\$ 11,984	\$ 17,131
Long-term portion	<u>67,913</u>	<u>78,041</u>
Total	<u>\$ 79,897</u>	<u>\$ 95,172</u>

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Since the Board has no obligation for the accumulated sick leave until it is actually taken, or until retirement, no accrual for sick leave has been made. The Board has a contingent liability for sick leave in the amount of \$388,648 at December 31, 2014 and \$722,554 at December 31, 2013.

Capital Assets

Property and equipment items are stated at cost and are being depreciated over their useful lives on a straight-line basis. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction. The Board capitalizes assets that have a value or cost of \$800 or greater at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets, generally estimated as follows: buildings, 50 years and office furniture and equipment, 5 to 10 years. Summaries follow:

	<u>Cost 12-31-13</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Cost 12-31-14</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Land/Building Costs	\$ 6,454,900	\$	\$	\$ 6,454,900	\$ 307,060	\$ 6,147,840
Furniture/Equipment	<u>858,190</u>	<u>331,139</u>		<u>1,189,329</u>	<u>678,005</u>	<u>511,324</u>
	<u>\$ 7,313,090</u>	<u>\$ 331,139</u>	<u>\$ -</u>	<u>\$ 7,644,229</u>	<u>\$ 985,065</u>	<u>\$ 6,659,164</u>

	<u>Cost 12-31-12</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Cost 12-31-13</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Land/Building Costs	\$ 6,454,900	\$ -	\$ -	\$ 6,454,900	\$ 234,773	\$ 6,220,127
Furniture/Equipment	<u>872,275</u>	<u>13,190</u>	<u>27,275</u>	<u>858,190</u>	<u>592,586</u>	<u>265,604</u>
	<u>\$ 7,327,175</u>	<u>\$ 13,190</u>	<u>\$ 27,275</u>	<u>\$ 7,313,090</u>	<u>\$ 827,359</u>	<u>\$ 6,485,731</u>

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in earnings for the period. Depreciation expense was \$157,706 for the year ended December 31, 2014 and \$150,193 for the fiscal year ended December 31, 2013.

Income Taxes

The Board is an independent state agency which is a nonmajor enterprise fund of the primary government of the State of North Carolina, and it is exempt from federal and state income taxes.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Deposits and Investments

Deposits

All of the Board's deposits which are uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)] by the financial institution holding said deposits. For deposits, custodial credit risk is the risk that in the event of the failure of the depository (or counterparty), the Board will not be able to recover the value of its deposits that are in the possession of the outside party. The Board does not have formal policies regarding custodial credit risk for deposits.

At December 31, 2014, the Board's Operating Fund deposits had a carrying amount of \$3,710,546 and a bank balance of \$3,616,170. Of the bank balance, \$500,000 was covered by federal depository insurance (Federal Deposit Insurance Corporation), and \$3,116,170 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)]. At December 31, 2014, the Board's Recovery Fund deposits had a carrying amount of \$488,495 and a bank balance of \$488,512, which was covered by federal depository insurance.

At December 31, 2013, the Board's Operating Fund deposits had a carrying amount of \$3,685,888 and a bank balance of \$3,642,994. Of the bank balance, \$750,000 was covered by federal depository insurance (Federal Deposit Insurance Corporation), and \$2,892,994 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)]. The Operating Fund deposits include a money market savings account in the amount of \$484,702, which is pledged as collateral against the building notes payable denoted in Note 6, and accordingly, is reported herein as an other non-current asset at December 31, 2013. At December 31, 2013, the Board's Recovery Fund deposits had a carrying amount of \$561,117 and a bank balance of \$557,822. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$57,822 was uninsured and uncollateralized [unless collateralized pursuant to NC Administrative Code (20 NCAC 7)].

Summary of Investments

The Board had no investments at December 31, 2014 and 2013. Accordingly, a Reconciliation of Deposits and Investments is not presented. The Board disposed of its investments in money market mutual funds during the year ended December 31, 2013. Investments in money market mutual funds were classified as investments on the Statements of Net Position. Money market mutual fund income was earned in the amount of \$5,983 for the year ended December 31, 2013. Realized gain (loss) on the disposition of investments in money market mutual funds in the amount of \$(3,771) was reported for the year ended December 31, 2013.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 2 - Deposits and Investments (Continued)

Risk Disclosures

Interest rate risk - As a means of limiting its exposure to fair value losses arising from interest rate variances, the Board limits its investments, if any, to certificates of deposits with maturities of no more than 24 months and to money market mutual funds.

Credit risk - Investments of the Board are subject to the statutory requirements of North Carolina General Statutes, however the Board's present policy for managing credit risk is to limit its investments to certificates of deposits and money market mutual funds. The Board had no investments at December 31, 2014 and December 31, 2013.

Custodial credit risk - For deposits and investments, custodial credit risk is the risk that in the event of the failure of the depository (or counterparty), the Board will not be able to recover the value of its deposits and investments that are in the possession of the outside party. The Board does not have formal policies regarding custodial credit risk for deposits and investments. Federal depository insurance is discussed in the preceding section. The Board had no investments at December 31, 2014 and December 31, 2013.

Note 3 - Unearned Revenue

The Board's fees are assessed and collected on a fiscal year basis, which corresponds with the Board's accounting period. Licenses are renewed for a period of one fiscal year. License renewal fees received in the latter part of the fiscal year are deferred and recognized as revenue over the one year period to which they relate.

Note 4 - Net Position

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any loan proceeds that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted net position - This component of net position consists of net position which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The Homeowners Recovery Fund is a restricted fund with expendable and nonexpendable components.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of *restricted or investment in capital assets*. The Board has designated a reserve for legal expenses in the amount of \$600,000 for the years ended December 31, 2014 and 2013 for its unrestricted net position.

Note 5 - Operating Leases

The Board leased office equipment under operating leases during the years audited herein. Total rent expense charged to operations under lease agreements was \$32,635 in 2014 and \$39,218 in 2013. Rental commitments under noncancellable operating leases at December 31, 2014 are as follows:

Year Ending December 31,
2015

\$	27,371
\$	27,371

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 6 - Notes Payable and Long-Term Liabilities

Notes Payable

The Board has entered into loan agreements with a local financial institution and a vendor. Following is a summary of those notes payable.

	<u>2014</u>	<u>2013</u>
Note payable to financial institution, collateralized by land and building, due in monthly installments of \$32,480, at 3.64% interest, through November, 2025.	\$ 3,503,980	\$ 3,759,299
Note payable to software development company, for proprietary database software, due in monthly installments of \$8,417, at zero percent interest, through December 2016.	<u>202,008</u>	
Total	<u>\$ 3,705,988</u>	<u>\$ 3,759,299</u>

The maturities of debt for each of the years subsequent to December 31, 2014, are as follows:

2015- \$367,639; 2016- \$377,507; 2017- \$286,738; 2018- \$297,351; 2019- \$308,357;
2020- \$319,770; 2021- \$331,606; 2022- \$343,880; 2023- \$356,608; 2024- \$369,807; 2025- \$346,725.

Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the years ended December 31, 2014 and December 31, 2013 is presented as follows:

	Balance 12-31-13	Additions	Reductions	Balance 12-31-14	Long-Term Portion	Current Portion
Notes Payable	\$ 3,759,299	\$ 303,012	\$ 356,323	\$ 3,705,988	\$ 3,338,350	\$ 367,638
Compensated Absences	95,172	98,036	113,311	79,897	67,913	11,984
	<u>\$ 3,854,471</u>	<u>\$ 401,048</u>	<u>\$ 469,634</u>	<u>\$ 3,785,885</u>	<u>\$ 3,406,263</u>	<u>\$ 379,622</u>

	Balance 12-31-12	Additions	Reductions	Balance 12-31-13	Long-Term Portion	Current Portion
Notes Payable	\$ 4,135,525		376,226	\$ 3,759,299	\$ 3,502,115	\$ 257,184
Compensated Absences	94,031	86,965	85,824	95,172	78,041	17,131
	<u>\$ 4,229,556</u>	<u>\$ 86,965</u>	<u>\$ 462,050</u>	<u>\$ 3,854,471</u>	<u>\$ 3,580,156</u>	<u>\$ 274,315</u>

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 7 - Pension Plans

On June 1, 1983, the General Assembly of North Carolina enacted legislation which excludes certain licensing boards (including the North Carolina Licensing Board for General Contractors) from membership in the Teachers' and State Employees' Retirement System (TSERS) of North Carolina. Accordingly, the Board has no employees eligible to participate in the Teachers' and State Employees' Retirement System of North Carolina (TSERS). Additionally, the Board has no previously employed persons eligible to participate in TSERS who qualify for postemployment benefits. The Board has established a separate retirement plan for its employees. The Board assumes no liability for retirement benefits provided other than its required contributions.

IRC 414(h) Plan

Effective January 1, 2001, the Board established a salary reduction, defined contribution retirement savings plan in accordance with Internal Revenue Code Section 414(h). Sixteen employees are covered under the plan, two management employees and fourteen staff employees. Eligible employees must contribute 6% of their compensation each year and the Board matches those contributions 100%. Employee's contributions are immediately 100% vested; the Board's contributions are 100% vested after 5 years of credited service.

The Board's covered payroll for 2014 was \$980,067; the Board's total payroll was \$1,038,354. The Board's covered payroll for 2013 was \$945,062; the Board's total payroll was \$977,106. The Board's covered payroll for 2012 was \$935,667; the Board's total payroll was \$964,999. The total contribution for the year ended December 31, 2014 was \$155,069, which consisted of \$58,804 from the Board and \$96,265 from employees. The total contribution for the year ended December 31, 2013 was \$142,101, which consisted of \$56,704 from the Board and \$85,397 from employees. The total contribution for the year ended December 31, 2012 was \$139,942, which consisted of \$56,140 from the Board and \$83,802 from employees.

Defined Contribution Plan

During the year ended December 31, 1992, the Board adopted a discretionary defined contribution plan on behalf of employees of the Board who were not eligible to participate in the Teachers' and State Employees' Retirement System. The Board terminated this plan on January 1, 2001 and rolled over its employees' account balances into the IRC 414(h) plan discussed in the previous section.

Note 8 - Administrative Reimbursement from Recovery Fund to Operating Fund

The Board provides office space and administrative and clerical services for the Recovery Fund's operation. A monthly administrative fee was reimbursed to the Board's Operating Fund for the fiscal years ended December 31, 2014 and 2013. The annual administrative fee was \$79,200 for 2014 and \$79,200 for 2013. Additionally, direct operating expenses of the Recovery Fund such as professional fees, and specifically identifiable office expenses are paid from the Recovery Fund's separately maintained special account.

Note 9 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled by participation in state-administered risk programs and self retention of certain risks. Additionally, the Board protects itself from exposure to potential loss through the purchase of commercial insurance coverage.

NORTH CAROLINA LICENSING BOARD FOR GENERAL CONTRACTORS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 10 - Contingencies

Disciplinary Hearings

The Board is involved in a number of disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the years under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

Recovery Fund Claims

The Recovery Fund of the North Carolina Licensing Board for General Contractors is presented with a number of claims throughout each year requesting reimbursement for reimbursable losses as defined under North Carolina General Statute 87-15. There were no awarded but unpaid claims payable at December 31, 2014 and 2013. There were \$3,692,187 of pending but unawarded claims at December 31, 2014 and there were \$5,585,306 of pending but unawarded claims at December 31, 2013. Further, there were incurred but unreported losses at each year end which are statistically inestimable. The Board may reject or allow part or all of a claim based on the amount of money in the Recovery Fund. Accordingly, in the opinion of management of the Board, the resulting liabilities of such claims do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

Note 11 - Subsequent Events

Subsequent events have been evaluated through April 22, 2015, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in financial statements would be required.

The audit required 115 audit hours at a cost of \$12,450.